

REPORT OF EXAMINATION
OF THE
DELTA DENTAL INSURANCE COMPANY
AS OF
DECEMBER 31, 2006

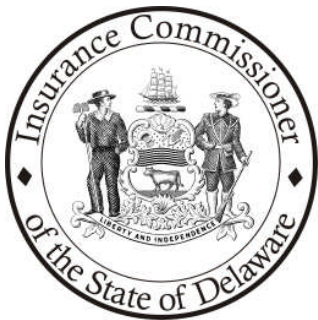
I, Matthew Denn, Insurance Commissioner of the State of Delaware, do hereby certify that the attached REPORT ON EXAMINATION, made as of DECEMBER 31, 2006 of the

DELTA DENTAL INSURANCE COMPANY

is a true and correct copy of the document filed with this Department.

ATTEST BY: Antoinette Handy

DATE: 16 JUNE 2008



In Witness Whereof, I HAVE HEREUNTO SET MY HAND
AND AFFIXED THE OFFICIAL SEAL OF THIS
DEPARTMENT AT THE CITY OF DOVER, THIS
16TH DAY OF JUNE.

Matthew Denn
Insurance Commissioner

REPORT ON EXAMINATION
OF THE
DELTA DENTAL INSURANCE COMPANY
AS OF
December 31, 2006

The above captioned Report was completed by examiners of the Delaware Insurance Department.

Consideration has duly been given to the comments, conclusions, and recommendations of the examiners regarding the status of the Company as reflected in the Report.

This Report is hereby accepted, adopted, and filed as an official record of this Department.

A handwritten signature in black ink, appearing to read "Matthew Denn", written in a cursive style.

MATTHEW DENN
INSURANCE COMMISSIONER

DATED this 16TH Day of JUNE 2008.

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SALUTATION

December 12, 2007

Honorable Alfred Gross
Chairman, Financial Condition (E)
Committee, NAIC
State Corporation Commission
Bureau of Insurance
PO Box 1157
Richmond, VA 23218

Honorable Thomas E. Hampton
Secretary, Northeastern Zone (I), NAIC
Department of Insurance, Securities and
Banking
Government of the District of Columbia
810 First Street N.E., Suite 701
Washington, DC 2002

Honorable Julie Mix McPeak
Secretary, Southeastern Zone (II), NAIC
Office of Insurance
Commonwealth of Kentucky
P.O. Box 517
Frankfort, KY 40602-0517

Honorable Merle D. Scheiber
Secretary, Midwestern Zone (III), NAIC
South Dakota Division of Insurance
Department of Revenue and Regulation
445 East Capitol Avenue
Pierre, SD 57501-3185

Honorable Kent Michie
Secretary, Western Zone (IV), NAIC
Utah Department of Insurance
3110 State Office Building
Salt Lake City, Utah 84114-1201

Honorable Matthew P. Denn
Insurance Commissioner
Department of Insurance
State of Delaware
841 Silver Lake Boulevard
Dover, Delaware 19904-2465

Dear Commissioners:

In compliance with instructions and pursuant to statutory provisions contained in Delaware Department of Insurance Certificate Number 07.022 , an examination has been made of the affairs, financial condition and management of the

DELTA DENTAL INSURANCE COMPANY

hereinafter referred to as “Company” or “DDIC”, incorporated under the laws of the State of Delaware as a stock company with its statutory home office located at 1807 North Market Street, Wilmington, Delaware. The examination was conducted at the main administrative office of the

Delta Dental Insurance Co.

Company, located at 100 First Street M/S 12R, San Francisco, California 94105. The report of examination thereon is respectfully submitted.

SCOPE OF EXAMINATION

The last examination of the Company was conducted by the Delaware Insurance Department as of December 31, 2003. This examination covered the period from January 1, 2004 through December 31, 2006, and consisted of a general survey of the Company's business policies and practices, management, any corporate matters incident thereto, a verification and evaluation of assets and a determination of liabilities. Transactions subsequent to the latter date were reviewed where deemed necessary.

This report is presented on an exception basis. It is designed to set forth the facts with regard to any material adverse findings disclosed during the examination. The format of this report is designed to explain the procedures employed on the examination and the text will explain changes wherever made. If necessary, comments and recommendations have been made in those areas in need of correction or improvement. In such cases, these matters were thoroughly discussed with responsible Company Officials during the course of the examination.

The general procedures of the examination followed the rules established by the National Association of Insurance Commissioners' (NAIC) Committee on Financial Condition Examiners Handbook, and generally accepted statutory insurance examination standards. In addition to items hereinafter incorporated as part of the written report, the following were reviewed without exceptions and made part of the workpapers of this examination:

Fidelity Bond and Other Corporate Insurance
NAIC Financial Ratios
Legal Actions
Employee and Agents Welfare
All Asset and Liability Items Not Mentioned in this Report

Delta Dental Insurance Co.

Workpapers prepared by the Company's external accounting firm, Armanino McKenna LLP, San Ramon, California, in connection with the annual audit, were reviewed and relied upon to the extent deemed possible. INS Services, Inc. was retained by the Delaware Department of Insurance to assist the Examiner In-Charge in the actuarial phase of this Financial Condition Examination.

In addition to the Company, concurrent examinations were performed of Dentegra Insurance Company and Delta Dental of Delaware, Inc., all Delaware domestic insurance companies.

HISTORY

The Company was originally organized and incorporated under the laws of the State of Illinois on February 9, 1970 as the Dental Service Plans Insurance Company. The purposes for which the Company was organized were to 1) supplement the services provided by Delta Dental Plans (individually called "state plans"), 2) reinsure state plans, 3) insure in conjunction with the state plans' that have multi-state contracts in states in which no plan exists, and 4) serve as an underwriting vehicle in states where state plans do not operate or, because of financial or charter considerations, are unable to underwrite dental programs.

In 1980, the Company, with permission from the Illinois Director of Insurance, moved its administrative and executive offices from Chicago, Illinois to San Francisco, California. In 1982, the name of the Company was changed to Delta Service Plans Insurance Company; and, in 1991, the name was again changed to Delta Dental Insurance Company.

The Company was re-domiciled to Delaware from Illinois effective September 27, 2002.

CAPITALIZATION**Common Stock**

The total number of common stock shares which the Company is authorized to issue is 250,000 shares at a par value of \$25 for each share.

As of December 31, 2006, the Company had 65,863.1648 outstanding shares of common capital stock for a total capitalized value of \$1,646,579. This amount is unchanged from the previous examination as of December 31, 2003. All shares of the Company are owned by members of the Delta Dental Plans Association, with Delta Dental of California owning 86.383% of the total shares outstanding. The name of shareholders and the respective shares owned are listed in the following exhibit:

	<u>Shareholders</u>	<u>Number of Shares</u>	<u>Percentage</u>
1	Delta Dental Plan of Alabama	41.0000	0.062%
2	Delta Dental Plan of Arizona	10.0000	0.015%
3	Delta Dental Plan of California	56,894.5833	86.383%
4	Delta Dental Plan of Colorado	500.0000	0.759%
5	Hawaii Dental Service	1,668.0000	2.533%
6	Delta Dental Plan of Illinois	333.6660	0.507%
7	Delta Dental Plan of Iowa	16.6660	0.025%
8	Delta Dental Plan of Kentucky	240.0000	0.364%
9	Louisiana Dental Care Corp	20.0000	0.030%
10	Delta Dental Plan of Michigan	4,004.1666	6.080%
11	Delta Dental Plan of Minnesota	34.0000	0.052%
12	Delta Dental Plan of Montana	100.0000	0.152%
13	Delta Dental Plan of New Hampshire	166.6666	0.253%
14	Delta Dental Plan of New Jersey	166.6666	0.253%
15	Delta Dental Plan of New Mexico	75.0000	0.114%
16	Delta Dental Plan of Ohio	167.0000	0.254%
17	Oregon Dental Service	166.6666	0.253%
18	Delta Dental Plan of Pennsylvania	81.4166	0.124%
19	Delta Dental Plan of South Dakota	83.0000	0.126%
20	Delta Dental Plan of Vermont	16.6666	0.025%
21	Delta Dental Plan of Virginia	35.0000	0.053%
22	Delta Dental Plan of Washington	834.3333	1.267%
23	Delta Dental Plan of Wisconsin	42.0000	0.064%
24	Delta Dental Plan of Wyoming	166.6666	0.253%
	Total	<u>65,863.1648</u>	<u>100.000%</u>

Preferred Stock

The total number of shares of preferred stock which the Company is authorized to issue is 150,000 shares at a par value of \$70 per share for each share.

In 1994, the Board of Directors resolved to increase the authorized capital of the Company by \$15,000,000. In September 1994, the Company issued 100,000 shares of \$100 par value non-voting preferred stock. In June 1995, through shareholder action, the par value of preferred stock was decreased from \$100 to \$70 per share resulting in a reduction of the preferred stock by \$3,000,000. The \$3,000,000 was transferred to gross paid in and contributed surplus. At the same time, the Company issued an additional 50,000 shares of preferred stock at \$70 par value. Delta Dental of California (“DDC”) paid \$6,000,000 for the purchase of these shares. Of the amount paid, \$3,500,000 was reflected as an increase in preferred stock and \$2,500,000 was reflected as gross paid in and contributed surplus.

As of December 31, 2006, the Company had 150,000 outstanding shares of preferred stock totaling \$10,500,000, an amount unchanged since its last examination. All of the preferred shares are owned by DDC, the primary parent company. The following schedule summarizes the above transactions.

Description	Preferred Stock	Gross Paid in and Contributed Surplus
Balance as of January 1, 1993	\$ 0	\$ 1,797,853
Issued 100,000 shares at \$100 per share 09/94	\$ 10,000,000	\$ 0
Reduced par value from \$100 to \$70, 06/95	(3,000,000)	3,000,000
Issued 50,000 shares at \$70 per share, in which DDC paid \$120 per share, 6/95	3,500,000	2,500,000
Balance as of December 31, 2006	\$ 10,500,000	\$ 7,297,853

Gross Paid in and Contributed Surplus

As of December 31, 2006, gross paid in and contributed surplus totaled \$7,297,853 and has remained unchanged since the previous examination.

Surplus Notes

On June 27, 1984, the Company borrowed \$750,000 from DDC. This loan is evidenced by a non-interest bearing subordinated note.

On June 1, 2001, the Company issued a \$5 million surplus note with an annual interest rate of 10% payable to DDC. Effective September 2002, the interest rate on this note was reduced to 6%. On September 6, 2002, the Company issued a second \$5 million surplus note at 6% interest payable to DDC. On November 10, 2003, the Company issued a third \$5 million surplus note at 6% interest payable to DDC. On August 1, 2006 the Company issued an additional \$10 million surplus note at 6% interest payable to DDC. These transactions were completed under the review of the Illinois Department of Insurance and the Delaware Department of Insurance. As noted in "HISTORY" above, the Company re-domesticated from Illinois to Delaware September 27, 2002. All principal and interest payments are subjected to pre-approval by the Delaware Department of Insurance.

Delta Dental Insurance Co.

As of December 31, 2006, the Company had a total of \$25,750,000 in surplus notes payable to DDC. Interest paid the year ending December 31, 2006 for all of the Company's surplus notes was \$1,151,507. Interest payments made received approval from the Delaware Department of Insurance.

Dividends

The Company paid no dividends during the examination period.

MANAGEMENT AND CONTROL

Pursuant to general corporation laws of the state of Delaware, as implemented by the Company's Certificate of Incorporation and bylaws, all corporate powers are exercised by or under the direction of a Board of Directors, which shall be determined by the shareholders.

Shareholders

In accordance with its bylaws the annual shareholder's meetings shall be held in May or June of each year at a date and time to be set annually by the Board of Directors. On May 12, 2004 the bylaws of the Company were amended to indicate that the Board shall consist of four (4) members. This was in conflict with the Company's Certificate of Incorporation. Section 5C of its Restated Certificate of Incorporation, dated September 30, 2002, provides that the number of Directors shall be set forth in the bylaws and shall consist of not less than five (5) members.

It is recommended the Company amend its corporate records to set forth the number of Directors that is consistent with the provisions of the bylaws as well as the Certificate of Incorporation.

Board of Directors

Directors are elected annually and serve until a successor is elected and qualified. Interim vacancies may be filled by a less than quorum vote of the Directors then in office. The annual meeting of the Board of Directors shall be held immediately following adjournment of each annual shareholder's meeting for the purpose of appointment of officers. The following four (4) members were elected to the Board of Directors and were serving as of December 31, 2006:

<u>Directors</u>	<u>Principal Business Affiliation</u>
Gary D. Radine *	Chief Executive Officer, Delta Dental of California
Marilynn G. Belek, D.M.D.	Chief Dental Officer, Delta Dental of California
Michael J. Castro	Chief Financial Officer, Delta Dental of California
Patrick S. Steele **	Chief Information Officer, Delta Dental of California

* Chairman of the Board of Directors

** Vice Chairman of the Board of Directors

The Company did not provide evidence that *Section 4919 of Delaware Insurance Code* had been complied with. This Section requires that the Company notify the Delaware Insurance Department when a director or officer changes.

It is recommended that the Company notify the Delaware Department of Insurance when changes are made to Directors or officers in accordance with 18 Del C. § 4919.

Committees of the Board of Directors

1. Executive Committee

The Executive Committee, appointed by the Boards of Directors, during the interval between meetings of the Board of Directors, has the authority of the Board of Directors. The

Delta Dental Insurance Co.

following members were appointed by the Board and serving on the Executive Committee as of December 31, 2006:

Gary D. Radine, Chairperson
Patrick S. Steele, Vice Chairperson
Michael J. Castro, Chief Financial Officer

2. Audit Committee

By resolution, the Audit Committee of its parent, Delta Dental of California (DDC), serves as the Audit Committee of the Company and reports findings and recommendations of the outside auditors directly to both Boards of Directors. Members appointed by the Board and serving on the Audit Committee as of December 31, 2006 were:

Glen F. Bergert, Chairman
Terry A. O'Toole
David S. Walker

3. Investment Committee

The Investment Committee, during the interval between meetings of the Board of Directors, has and exercises the authority of the Board of Directors in the supervision of the investment activities and in the purchase and sale transactions of securities of the Company. The members appointed at the Board of Director's annual meeting and serving on the Investment Committee as of December 31, 2006 were:

Michael J. Castro, Chairperson
Patrick S. Steele
Dennis I. Cordeiro

4. Reinsurance Committee

The Reinsurance Committee was formed to review and approve all reinsurance placements based on its assessment of the reinsurers' financial strength and performance records.

Delta Dental Insurance Co.

The members appointed at the Board of Director's annual meeting and serving on the Reinsurance Committee as of December 31, 2006 were:

Michael J. Castro, Chairperson
Dennis I. Cordeiro
Charles Lamont, Esq.

Officers

In accordance with its bylaws, the elected officers of the Company shall be a Chairman of the Board, a Vice Chairman of the Board, one or more vice presidents, a secretary and a treasurer. The Board of Directors had the power to employ a president to administer the affairs of the Company under its direction. One person may hold more than one office, except that of president and secretary shall each be held by a different person.

The principal officers of the Company elected at the annual meeting of the Board of Directors and serving as of December 31, 2006 were:

<u>Name</u>	<u>Title</u>
Gary D. Radine	Chairman
Patrick S. Steele	Vice Chairman
Anthony S. Barth	President
Michael J. Castro	Treasurer
Robert G. Becker	Secretary
Russell L. Aracich	Vice President, Sales
Marilynn G. Belek, DMD	Vice President, Chief Dental Officer
Robert P. Budd	Vice President, Sales
Thomas Burden	Vice President, Operations
Lowell C. Daun, DDS	Vice President, Federal Programs
Renee A. Fisher	Vice President, Operations
Michael B. Kaufmann	Vice President, State Programs
Belinda Martinez	Vice President, COO
Paul Lambert	Vice President, Underwriting
Michael J. McGinley	Vice President, Dental Affairs
Debra J. Reeves	Vice President, Marketing
Rohan Reid	Vice President, Operations
Alicia F. Weber	Vice President, Controller
Charles Lamont, Esq.	Assistant Secretary
Karen L. Robinson	Assistant Secretary

<u>Name</u>	<u>Title</u>
Dennis I. Cordeiro	Assistant Treasurer

Conflict of Interest

Inspection of Company files indicated that Conflict of Interest Disclosure Statements are distributed to all Directors and Officers pursuant to a resolution requiring full disclosure of any conflicts of interest. No conflicts of interest were disclosed during the examination period.

INSURANCE HOLDING COMPANY SYSTEM

The Company is a member of the Dentegra Group Inc. (Dentegra Group) corporate holding company system. Dentegra Group is a nonprofit Delaware corporation located in San Francisco, CA formed by Delta Dental of California (DDC), Delta Dental of Pennsylvania (DDP) and several other affiliated companies. Together, the Dentegra Group companies, through the Delta Dental Plans Association (Delta Association), administer dental benefits to over 16 million members across the United States, Puerto Rico, and Mexico. Delta Dental of California (DDC) is the ultimate controlling person of the Company by virtue of its 86.383% ownership of the Company's outstanding common stock and 100% of the Company's outstanding preferred stock. The remaining common shares are owned 6.08% by Delta Dental Plan of Michigan and 7.537% by 22 other states Delta Plans. DDC is considered the ultimate controlling party of the corporate holding company system since it elects the majority of the Directors of Dentegra Group.

DDC is a nonprofit, tax-exempt corporation organized under the laws of the State of California and is licensed as a specialized health care service plan by the California Department of Managed Health Care. DDC is directed by a 15 member board composed of purchasers, enrollees and dentists. Per its consolidated audited financial statement as of December 31, 2006,

Delta Dental Insurance Co.

DDC possessed assets of \$1.3 billion, and general reserves of \$415 million. The consolidated financial statement included the accounts of DDC, Delta Dental Insurance Company (Company), Dentegra Insurance Company (DE), Dentegra Insurance Company of New England (MA), Private Medical-Care, Inc. (CA) and Celebration Dental Services (FL).

Dentegra Group (through its control of certain subsidiaries indicated below by **) is a element of the Delta Association which is comprised of 39 independent Delta Dental member companies operating in all 50 states, the District of Columbia and Puerto Rico.

Delta Association (headquartered in Oak Brook, Illinois) is a national network of independent not-for-profit dental service corporations specializing in providing dental benefits programs to individuals and employee groups throughout the United States, covering over 35 million members. According to its web site, its independent member companies were:

- | | |
|-------------------------------------------------|--------------------------------------|
| 1 *Delta Dental Insurance Company** | 21 Delta Dental of New Jersey |
| 2 Delta Dental of Arizona, Inc. | 22 Delta Dental of New Mexico |
| 3 Delta Dental of Arkansas, Inc. | 23 Delta Dental of New York |
| 4 Delta Dental of California** | 24 Delta Dental of North Carolina |
| 5 Delta Dental of Colorado | 25 Delta Dental of North Dakota |
| 6 Delta Dental of Delaware** | 26 Delta Dental of Ohio |
| 7 Delta Dental of The District of Columbia** | 27 Delta Dental of Oklahoma |
| 8 Hawaii Dental Service | 28 Oregon Dental Services Co. |
| 9 Delta Dental of Idaho | 29 Delta Dental of Pennsylvania** |
| 10 Delta Dental of Illinois | 30 Delta Dental of Puerto Rico |
| 11 Delta Dental of Indiana | 31 Delta Dental of Rhode Island |
| 12 Delta Dental of Iowa | 32 Delta Dental of South Carolina |
| 13 Delta Dental of Kansas | 33 Delta Dental of South Dakota |
| 14 Delta Dental of Kentucky, Inc. | 34 Delta Dental of Tennessee |
| 15 Delta Dental of Massachusetts | 35 Delta Dental of Virginia |
| 16 Delta Dental of Michigan | 36 Washington Dental Services |
| 17 Delta Dental of Minnesota | 37 Delta Dental of West Virginia** |
| 18 Delta Dental of Missouri | 38 Delta Dental of Wisconsin |

19 Delta Dental of Nebraska

39 Delta Dental of Wyoming

20 Northeast Delta Dental

*Delta Dental Insurance Company (Company or DDIC) markets dental insurance in nine (9) states which are; Alabama, Florida, Georgia, Louisiana, Mississippi, Montana, Nevada, Texas and Utah. Through its marketing affiliates, DDIC provides direct underwriting in Alaska, Connecticut, District of Columbia, New York and West Virginia. DDIC is also the direct underwriter in 19 states / regulatory jurisdictions on a multi-state dental insurance program for members of the AARP.

** These Companies are part of the Dentegra Group corporate holding company system.

Each Delta Dental Plan member may or may not be in a holding company system within itself. For example Delta Dental of New Jersey, Inc. (a Delta Dental Plans Association member listed above) owns 100% of the common stock in Dental Reinsurance Company, LTD (DRC, LTD) (a Bermuda Company). DRC, LTD assumes 95% of DDIC's business written in Connecticut (see "REINSURANCE" below for more information concerning this reinsurance agreement). Neither of these Companies, Delta Dental of New Jersey, Inc. or DRC, LTD) is in the Dentegra Group, Inc. holding company system however the DDIC has agreements with each company.

Organizational Chart

The organizational chart below indicates the ownership and the control relationships considered material to the Company.

Delta Dental Insurance Co.

| Dentegra Group, Inc. (DE) (Dentegra Group)

- | Delta Dental of California (CA) (DDC) – Elects 5 Directors to Dentegra Group
 - Dentegra Ins. Co. (DE) (DIC) – 80% Common Stock owned by DDC
 - Dentegra Ins. Holding, LLC (DE) (DIH, LLC) – 100% Membership Held by DIC
 - Servicios Dentales Dentegra S.A. de C.V. (Mexico) (SDD) – 98% owned by DIC*
 - Dentales Seguros Dentegra S.A. (Mexico) (DSD) – 98% owned by DIC*
 - Private Medical-Care, Inc. (CA) (PMI) – 100% voting stocks held by DDC
 - Dentegra Ins. Co. of New England (MA) (DIC-NE) – 100% owned by DDC
 - Delta Dental Insurance Company (DE) DDIC) – 86.383% owned by DDC ****
 - Delta Rein. Corp. (Barbados) (DRC) – 5.2% owned by DDIC
 - Delta Rein. Corp. (Barbados) (DRC) – 5.2% owned by DDC
- | Delta Dental of Pennsylvania (PA) (DDP) – Elects 2 Directors to Dentegra Group
 - Dentegra Ins. Co. (DE) (DIC) – 20% Common Stock owned by DDP
 - Delta Dental of Delaware, Inc. (DE) (DDD) – Mgt. Agr. with DDP
 - Delta Dental of West Virginia (WV) (DDWV) – Mgt. Agr. with DDP
 - Delta Rein. Corp. (Barbados) (DRC) – 5.2% owned by DDWV
 - Delta Rein. Corp. (Barbados) (DRC) – 84.4% owned by DDP

* The remaining 2% of SDD and DSD is owned by DIH.

** The remaining 13.617% of DDIC's common stock is owned by 23 other state Delta Dental Plans members.

Delta Companies not included in the above organizational chart in which the Company had reinsurance agreements with during the examination period were Oregon Dental Services, Delta Dental Plan of Puerto Rico (DDPR), and Dental Reinsurance Company, LTD. The Company or DDC did not have an equity relationship with any of these three Companies. In January 2007, DDC merged Private Medical-Care, Inc. (PMI) into its DHMO operations. Also in 2007, DDC purchased 48% of DDPR; see "SUBSEQUENT EVENTS" below for more information.

INTERCOMPANY AGREEMENTS

The Company participated in the following significant intercompany service agreements during the period under examination:

Purchase of Services Agreement

Effective since February 4, 1980, the Company has operated under a Purchase of Services Agreement with Delta Dental of California (DDC). Services provided under the terms of the agreement include the following:

- Maintenance and preparation of all accounts and financial records.
- Actuarial services for the development of premium rates, review of group experience and the reporting of that experience.
- Preparation of insurance policies, certificates and other documents.
- Maintenance of bank accounts and the supervision of premium and other income and disbursements.
- Maintenance and operation of data processing facilities.
- Maintenance of all books and records.

For services performed by DDC, the Company pays an annual fee, payable in twelve equal installments on the first day of each month. The annual fee is determined as the actual cost of providing such services, including a reasonable allocation of overhead costs. For the year ending 2006, the Company paid DDC \$4,217,691, for services provided under this agreement.

Financial Management Agreement

Effective September 21, 1994, the Company entered into a Financial Management Agreement with Delta Dental of California (DDC). Under the terms of the agreement, the Company appointed DDC as a financial manager with full authority to engage, either directly or through subcontractors, in the following activities:

- Provide and implement an investment program.
- Provide financial oversight and financial consulting services with respect to the assets subject to this agreement, as designated by the Company.
- Provide other services needed to perform the above activities.

When acting under the authority granted by this agreement, DDC is subject to the direction and control of the Company's Board of Directors, its Investment Committee, all applicable laws and regulations, as well as specific written rules, regulations and instructions of the Company. The Company pays an annual fee to DDC for these services. For 2006, this annual fee totaled \$54,546.

Corporate Administration Agreement

On March 1, 1997, the Company and DDC entered into a Corporate Administration Agreement. Under the terms of this agreement, the Company retains the authority to manage and supervise its business operations and to establish general operating policies. The Company does not delegate any powers, duties and responsibilities vested by law to DDC. With respect to those limitations, DDC provides the following services under this agreement:

- Provide assistance in advertising, solicitation and printed communication to subscribers, providers and the public.
- Provide assistance in premises, equipment and automobile leasing, purchasing, and facilities management.
- Provide financial analysis and budgeting.
- Provide investment assistance.
- Provide pension administration support and counsel for personnel matters.
- Perform routine reviews of the Company's systems.
- Act as general counsel and arrange for special counsel assistance as required.
- Provide counsel and direction in media communications.
- Provide assistance in purchasing appropriate insurance coverage's.

As compensation for services provided, the Company pays DDC direct or incremental costs. For 2006, the Company paid \$7,177,728 for services provided under this agreement.

Service Agreement

Effective January 1, 1998, the Company entered into a Service Agreement with Deltanet, Inc. (Deltanet). The purpose of this agreement was for Deltanet to provide data processing computing and software consulting services to the Company not otherwise provided under the

Delta Dental Insurance Co.

Purchase of Services Agreement discussed above. Under the terms of this agreement, Deltanet provided the following functions:

- Computer processing of the Company's data during normal business hours and at other hours of operation (weekends, holidays, etc...).
- Storage of magnetic disk and tap files required for system use.
- Dedicated communication lines and equipment to provide the reliable transmission of data.
- Use of the Deltanet system.
- Training in the procedures and techniques used in the operation of the system.
- Reports generated by the computer processing.

Effective December 31, 2004, Deltanet was dissolved by its sole shareholder, DDC, and DDC assumed all of Deltanet's assets. The Service Agreement between the Company and Deltanet was assigned to DDC, which is now providing the data processing services to the Company. For 2006, the Company paid DDC \$6,875,256 for services provided under this agreement.

Marketing and Operations Support Agreement – AARP Dental Insurance Plan

Effective May 1, 2004, the Company entered into a Marketing and Operations Support Agreement with DDC, under which DDC provides certain support services to the Company in regard to the AARP Dental Insurance Plan, including underwriting and actuarial, marketing, enrollment and eligibility, claims adjudication, enrollee call center and grievance responses, quality management, professional relations, financial services, data collection, and reporting, and compliance and legal services. For 2006, the Company paid DDC \$5,275,208 for services provided under this agreement.

For the many services provided under its five (5) separate agreements noted above with DDC, the Company was paid and/or was reimbursed a net total of \$31,706,181 for the year ending 2006.

DeltaCare Marketing and Administrative Agreement

Effective January 1, 2003 the Company entered into an Amended and Restated Deltacare Marketing and Administrative Agreement with its affiliate, Private Medical-Care, Inc. (PMI). Under this agreement PMI acted as a third party administrator on behalf of the Company in certain states to assist in marketing and administration of DeltaCare dental benefits programs. Services provided by PMI included marketing, enrollment, provider recruiting and credentialing services for DHMO type plans. Fees paid to PMI in 2006 for these services were \$7,296,174.

Administrative Services Agreement - AARP Dental Insurance Plan

Effective January 1, 2006, the Company entered into an Administrative Services Agreement with Dentegra Insurance Company (DIC) to act as a third party administrator on behalf of DIC in regard to two group dental insurance contracts issued by DIC to the American Association of Retired Persons (AARP) Dental Insurance Trust.

Under this agreement, the Company's responsibilities are to:

- Bill and collect AARP Dental Insurance Plan premiums, all of which were deposited to the Administrative Trust Fund,
- Payment of claims for covered services,
- Payment and distributions from the Administrative Trust Fund account,
- Determine enrollment and eligibility,
- Marketing,
- Provide written materials,
- Data collections and reporting, and
- Provide underwriting and actuarial services.

Also effective January 1, 2006, the Company entered into an Administrative Services Agreement (identical to the above agreement) with Dentegra Insurance Company of New England (DIC-NE) to act as a third party administrator on behalf of DIC-NE in regard to two group dental insurance contracts issued by DIC-NE to the American Association of Retired Persons (AARP) Dental Insurance Trust. Services provided are the same as listed above.

Delta Dental Insurance Co.

In 2006 the Company did not receive fees for providing services to DIC or DIC-NE under the above agreements.

Tax Sharing Agreement

The Company was not a party to a Federal Income Tax Sharing Agreement.

TERRITORY AND PLAN OF OPERATION

Territory

As of December 31, 2006, the Company is authorized to transact business in the District of Columbia and the following thirty-four (34) states and commonwealths:

Alabama	Indiana	Nevada	Utah
Alaska	Kansas	New Mexico	West Virginia
Arizona	Kentucky	New York	U.S. Virgin Is
California	Louisiana	North Carolina	Puerto Rico
Connecticut	Maine	North Dakota	
Delaware	Maryland	Oregon	
Florida	Mississippi	Pennsylvania	
Georgia	Missouri	South Carolina	
Hawaii	Montana	Tennessee	
Illinois	Nebraska	Texas	

The Company also holds a Certificate of Authority from Puerto Rico where the Company is authorized to transact *disability reinsurance*, exclusively. In January 2007 the Company became licensed as a direct disability insurer in Puerto Rico.

Plan of Operation

The Company underwrites and administers dental care business in states where, due to regulatory limitations, a Delta Dental Plan may not exist. Similarly, the Company offers a number of dental packages which feature choice of dentist, professional review, benefit predetermination and claims processing. The insurance products offered by the Company are

Delta Dental Insurance Co.

limited, with dental insurance being the primary line of business marketed and underwritten. The Company vision care business was considered minimal. In addition to group plans at risk, the Company administers programs for certain groups on a cost reimbursement basis.

REINSURANCE

Assumed Reinsurance Business

Delta Dental Plan of Puerto Rico (DDPR)

Effective January 1, 1999, the Company entered into a 50% quota share reinsurance agreement with Delta Dental Plan of Puerto Rico (DDPR). Under the terms of that agreement, the Company agrees to assume the underwriting gain or loss of DDPR. During 2006, the Company assumed incurred claims in the amount of \$5,341,555 and received reinsurance premiums in the amount of \$6,503,392, respectively. The Company did not retrocede this business.

Ceded Reinsurance Business

Delta Reinsurance Corporation (DRC) (Barbados)

Effective April 28, 1987, the Company entered into a 90% quota share reinsurance agreement with its affiliate, DRC, to cover business sold on group contracts written in New York, Delaware, and the District of Columbia. The Company, its parent, DDC, and Delta Dental Plan of West Virginia each own 5.2% of DRC's common stock. The balance of 84.4% of DRC's common stocks is owned by Delta Dental of Pennsylvania. The Company has accepted three irrevocable, standby letters of credit totaling \$235,000 from Delta Dental of Pennsylvania as collateral for reserve credit totaling \$235,000 for these reinsurance agreements with DRC. The letters of credits are issued by M and T Bank, Baltimore, MD, and name the Company sole beneficiary. Effective July 1, 1997, the Company entered into two (2) separate agreements with

Delta Dental Insurance Co.

DRC wherein the Company cedes 95% of the dental and vision business sold in West Virginia by the Company or by Delta Dental Plan of West Virginia. Reinsurance trust assets of \$177,028, held by the Bank of New York secured the Company's reserve of \$177,028 under this agreement. See the reinsurance agreement with DDC (below) for more information regarding this trust agreement.

Dental Reinsurance Company, LTD (DRC, LTD) (Bermuda)

Effective December 1, 1995 the Company entered into a 95% quota share reinsurance agreement with DRC, LTD. and Delta Dental Plan of New Jersey, Inc. covering all claims paid or incurred on dental service contracts written in Connecticut by the Company. The Delta Dental Plan of New Jersey, Inc. owns DRC, LTD. DRC, LTD is neither licensed nor authorized in Delaware, nor does this entity appear on the NAIC listing of Alien Insurers. Financials for DRC, LTD., indicate that this reinsurers' only client is the Company, having assumed \$16,118,955 of gross premiums written and losses of \$15,298,680 on the business reinsured. Concurrent with this agreement, a Trust Deposit Agreement was established naming the Company as the beneficiary, Delta Dental Plan of New Jersey, Inc., as the grantor, and The Bank of New York as the trustee, the purpose of which is to collateralize reserve credits taken by the Company. The market value of the collateral held in the trust deposit account as of December 31, 2006 amounted to \$2,161,905, and covered loss reserves of \$1,221,614.

Amfirst Insurance Company (Amfirst)

Effective January 1, 2001, the Company entered into a 100% quota share reinsurance agreement with Amfirst ceding all incurred claims on dental service contracts entered into between the Company and Benefits Association, Inc. (a Mississippi association affiliated with Amfirst and formed by the brokerage company, Morgan-White Group). The Company has a

Delta Dental Insurance Co.

\$100,000 irrevocable and unconditional standby letter of credit issued by Trustmark National Bank, Jackson, Mississippi as required by the quota share reinsurance agreement with Amfirst. The Company is listed as the sole beneficiary on this letter of credit. The Company had taken a reserve credit of \$60,000 related to this agreement.

Dentegra Insurance Company (Dentegra)

Effective January 1, 2003, the Company entered into a 50% quota share agreement with Dentegra, an affiliate, ceding incurred claims under the covered dental contracts entered into between the Company and certain listed groups.

Oregon Dental Service (ODS)

Effective January 1, 2005, the Company entered into a 100% quota share reinsurance agreement with ODS, ceding business written in Alaska. This business was secured by funds held and by a Trust Agreement naming the Company as beneficiary. As of the examination date funds held and trust assets totaled \$97,802 and \$92,000, respectively, and secured reserve of \$97,802.

Delta Dental of California (DDC)

Hannover Life Reinsurance Company of America (Hannover Life Re)

Renaissance Life & Health Insurance Company of America (Renaissance Life)

Effective May 1, 2002, amended February 1, 2006, the Company entered into quota share reinsurance agreements with DDC, Hannover Life Re, and Renaissance Life ceding 56%, 33%, and 10% respectively, of the AARP Dental Insurance Trust business. These agreements expire on January 31, 2009 unless the AARP Dental Insurance Trust and underlying contracts are sooner terminated or renewed for additional terms.

In conjunction with the above reinsurance agreement with DDC, who is an unauthorized Delaware reinsurer, the Company entered into a Reinsurance Trust Agreement dated December 31, 2003 naming the Company as beneficiary, DDC as grantor and the Bank of New York as trustee. As of the examination date, the market value of trust assets totaled \$5,927,645 and secured reserves of \$1,505,011. A portion of these trust assets was used to secure paid or unpaid losses recoverable of \$177,028 for the Company's business sold in West Virginia ceded to DRC noted above.

Effective April 1, 2006, the Company entered into 100% quota share reinsurance agreement with DDC ceding Texas CHIP Dental Service Contract business for enrollees of the Texas Children Health Insurance Program. Paid and unpaid losses recoverable for this business were covered by the collateral in the above detailed Reinsurance Trust Agreement with the Bank of New York.

The Company failed to timely file with the Delaware Department of Insurance the January 1, 2003 agreement with Dentegra detailed above pursuant to **18 Del. C. Section 5004 (a) and(b)(3)(f)**. Also the Delaware Department of Insurance noted that the two agreements between the Company and DRC for Delta Dental of West Virginia dental and vision business were not filed timely as well. Furthermore, the Company was in violation of **18 Del. C. Section 5005 (a)(2)(c)** as it did not notify the Commissioner in writing of its intention to enter into this reinsurance agreement and have it approved within such period.

It is recommended that the Company timely file all reinsurance agreements to be in compliance with 18 Del. C. Section 5004 (a) and(b)(3)(f).

It is also recommended that the Company notify the Delaware Department of Insurance in writing of future intents to enter into reinsurance agreements.

GROWTH OF THE COMPANY

The following information was extracted from the Company's filed Annual Statements with the exception of 2006, which was verified during the current examination, and shows the growth of the Company since the last examination as of December 31, 2003.

<u>Year</u>	<u>Admitted Assets</u>	<u>Capital and Surplus</u>	<u>Net Premiums and Annuities Considerations*</u>	<u>Net Income (Loss)</u>
2006	\$94,095,432	\$44,752,784	\$207,620,414	\$89,489
2005	105,062,812	34,347,242	151,639,961	137,160
2004	76,386,640	34,971,517	138,226,926	391,927
2003	72,402,541	34,820,990	146,764,877	(116,417)

* Direct premiums written plus reinsurance assumed less reinsurance ceded.

ACCOUNTS AND RECORDS

The general ledger of the Company is maintained on a mainframe computer system which is provided by the parent company, Delta Dental of California. The current software used includes general ledger and accounts payable applications provided by Oracle Software.

The stock record and ledger, annual statements, quarterly financial statements, reinsurance agreements, and operational records including policy files, summaries of claims paid data, general correspondence, and day to day records are maintained at the Company's main administrative office in San Francisco, California. Data related to underwriting and actuarial calculations, claims paid and claims processing, marketing and marketing administration are maintained at the Company's office in Alpharetta, Georgia.

During the course of the examination of the Company's accounts and records, the examiners revealed several misclassifications of assets and liabilities. The review of the Company's 2006 amended Annual Statement disclosed several pages or schedules which were

either incomplete or prepared incorrectly, and indicated that the Company did not entirely and fully prepare its annual statements in accordance with the *NAIC Annual Statement Instructions*, the *NAIC Accounting Practices and Procedures Manual* and the *Purposes and Procedures Manual of the NAIC Securities Valuation Office*.

Certain significant discrepancies are briefly described in the following. Those discrepancies could be measured by dollar amounts and the involved amounts which were above the level of the planning materiality (PM) are being specifically reflected in the section of “Financial Statements” and further discussed in the section of “Notes to Financial Statements” of this report, respectively.

- The amount of reported for Drafts Outstanding did not qualify as a liability as defined by NAIC SSAP No. 2, Cash, Drafts, and Short-Term Investments. Instead the outstanding drafts were determined to be outstanding checks and were reclassified to offset cash, thus making cash a negative balance which affected the Risk Based Capital ratios.
- The Company’s amended 2006 Annual Statement did not correctly classify its Uncollected Premiums or Other Amounts Receivable under Reinsurance Contracts. An Examination reclass was required.

Exceptions noted that did not affect the Company’s Financial Statements were as follows;

- Schedule S, Part 4 – “Reinsurance Ceded To Unauthorized Companies” was not completed in the Company’s amended 2006 Annual Statement to disclose amounts held by various trust agreements and letters of credit for the reserve credit taken by the Company from the ceded reinsurance with unauthorized companies.

- The Company detected a “coding” error that incorrectly allocated claim payments to the wrong underwriter thus requiring the Company to amend its 2006 Annual Statement with correct claim payment allocations.

It is recommended that the Company comply with *Section 526 of the Delaware Insurance Code* which provides, among others, the annual statement shall be prepared in accordance with the *NAIC Annual Statement Instructions* and the *NAIC Accounting Practices and Procedures Manual*.

An external accounting firm audits the statutory-basis financial statements of the Company annually. The Company’s external accounting firm reviewed the internal control structure in order to establish the necessary audit procedures required to express an opinion on the December 31, 2006 financial statements. No significant or qualifying deficiencies were found to exist in the design or operation of the internal control structure other than the “coding” issue noted above.

FINANCIAL STATEMENTS

The financial position of the Company as of December 31, 2006, as determined by this examination, is presented in the following exhibits:

- Assets, Liabilities and Surplus and Other Funds as of December 31, 2006
- Summary of Operations as of December 31, 2006
- Capital and Surplus Account for the period of December 31, 2005 to December 31, 2006
- Schedule of Examination Adjustments

Analysis of Assets
As of December 31, 2006

	<u>Assets</u>		<u>Net Admitted</u>		<u>Notes</u>
	<u>Assets</u>	<u>Not Admitted</u>	<u>Assets</u>		
Bonds	\$ 39,078,867	\$ 0	\$ 39,078,867		1
Common stocks	12,552,234		12,552,234		
Cash on hand and on deposit	(1,856,022)		(1,856,022)		2
Short-term investments	17,484,353		17,484,353		
Subtotal cash and invested assets	\$ 67,259,432	\$ 0	\$ 67,259,432		
Investment income due and accrued	453,490		453,490		
Uncollected premiums and agents balances in course of collection	8,138,197	207,209	7,930,988		3
Other amounts receivable under reinsurance contracts	856,702		856,702		3
Amounts receivable relating to uninsured plans	4,941,783		4,941,783		
Net deferred tax asset	580,896	580,896	0		
Guaranty funds receivable or on deposit	30,337		30,337		
Receivables from parent, subsidiaries and affiliates	12,622,697		12,622,697		
Common stocks	25,000	25,000	0		
Prepaid purchases	530,912	530,912	0		
Furniture and fixtures	1,489,940	1,489,940	0		
Investment values difference	17,937	17,937	0		
Rounding			3		
			0		
<i>Totals</i>	<u>\$ 96,947,323</u>	<u>\$ 2,851,894</u>	<u>\$ 94,095,432</u>		

Liabilities, Surplus and Other Funds
As of December 31, 2006

		<u>Notes</u>
Aggregate reserve for accident and health contracts	\$ 83,587	4
Contract claims:		
Accident and health	14,263,780	4
Provision for experience rating refunds	599,266	
Commissions to agents due or accrued	956,174	
General expenses due or accrued	7,086,204	
Taxes, licenses and fees due or accrued	3,266,820	
Current federal and foreign income taxes	133,682	
Liability for benefits for employees and agents	1,773,672	
Asset valuation reserve	522,810	
Payable to parent, subsidiaries and affiliates	19,486,641	
Drafts outstanding	63,318	2
Liability for amounts held under uninsured plans	1,106,694	
<i>Total Liabilities</i>	<u>\$ 49,342,648</u>	
Common capital stock	\$ 1,646,579	
Preferred capital stock	10,500,000	
Surplus notes	\$ 25,750,000	
Gross paid in and contributed surplus	7,297,853	
Unassigned funds (surplus)	<u>(441,648)</u>	
Surplus	<u>32,606,205</u>	
Total of capital and surplus	<u>\$ 44,752,784</u>	
<i>Totals</i>	<u>\$ 94,095,432</u>	

Summary of Operations
As of December 31, 2006

Premiums and annuity contributions	\$ 207,620,114
Net investment income	3,054,455
Aggregate write ins for miscellaneous income	952,481
<i>Totals</i>	<u>\$ 211,627,050</u>

Disability benefits and benefits under accident and health policies	\$ 148,529,333
Increase in aggregate reserves for life and accident and health policies and contracts	18,753
<i>Totals</i>	<u>\$ 148,548,086</u>

Commissions on premiums, annuity considerations and deposit-type contracts	\$ 9,540,337
General insurance expenses	45,854,309
Insurance taxes, licenses and fees	7,282,604
Aggregate write-ins for deductions	291,225
<i>Totals</i>	<u>\$ 211,516,561</u>

Net gain from operations before federal income taxes	\$ 110,489
Federal income taxes	21,000
Net gain from operations before net realized capital gains or (losses)	\$ 89,489
Net realized capital gains or (losses)	0
<i>Net Income (Loss)</i>	<u>\$ 89,489</u>

Capital and Surplus Account
December 31, 2005 to December 31, 2006

		<u>Notes</u>
Capital and surplus, December 31, 2005	\$ 34,347,242	
Net income	\$ 89,489	
Change in net unrealized capital gains or (losses)	1,091,072	
Change in non-admitted assets and related items	(459,672)	
Change in asset valuation reserve	(315,347)	
Change in surplus notes	10,000,000	5
Net change in capital and surplus for the year	\$ 10,405,542	
Capital and surplus, December 31, 2006	\$ 44,752,784	

SCHEDULE OF EXAMINATION ADJUSTMENTS

<u>Description</u>	<u>Per</u> <u>Examination</u>	<u>Per</u> <u>Company</u>	<u>Surplus Increase</u> <u>(Decrease)</u>	<u>Note</u>
Assets:				
Cash	\$ (1,856,022)	\$ 15,425,891	\$ (17,281,913)	2
Uncollected Premiums	7,930,988	575,214	7,355,774	3
Receivable under Reinsurance Contracts	856,702	8,212,476	(7,355,774)	3
	<u>\$6,931,668</u>	<u>\$24,213,581</u>	<u>(\$17,281,913)</u>	
Adjusted Admitted Assets				
Liabilities and Surplus:				
Drafts outstanding	\$ (63,318)	\$ (17,345,231)	\$ 17,281,913	2
	<u>(\$63,318)</u>	<u>(\$17,345,231)</u>	<u>\$17,281,913</u>	
Adjusted Liabilities and Surplus				

NOTES TO FINANCIAL STATEMENTS

Assets

Note 1 - Bonds: \$39,078,867

The above-captioned amount, which is the same as that reported by the Company, has been accepted for purposes of this report.

An evaluation of the Company's bond portfolio noted that 100% of its holdings had an NAIC rating of "1". With the exception of bonds held for statutory purposes, investments are held by The Bank of New York (BONY) under a custodial agreement dated December 31, 2003. Review of the custodial agreement with BONY noted that it contained necessary provisions as required in the NAIC *Financial Condition Examiners' Handbook*.

Note 2 - Cash; \$(1,856,022)

Note 2 - Outstanding Drafts: \$(63,318)

The above captioned amounts for Cash and Outstanding Drafts each were \$17,281,913 less than what was reported by the Company. This was the result of the Company incorrectly reporting outstanding checks as a liability and not as an offset to cash. Per SSAP No. 2, the Company's should have treated the outstanding drafts as outstanding checks and offset cash by the amount of the outstanding checks.

It is recommended that the Company report cash and outstanding drafts in accordance with SSAP No. 2.

A reclassification is being made to reduce the reported amount of cash and outstanding drafts in the amount of \$17,281,913, which will cause the cash to a negative balance noted above. This reclass will not have a material affect of the Company's Risk Based Capital ratios.

<u>Note 3 - Uncollected Premiums:</u>	\$7,930,988
<u>Note 3 - Other Amounts Receivable under Reinsurance Contracts:</u>	\$856,702

The above captioned amount for Uncollected Premiums is \$7,355,774 more than what was reported by the Company and the above captioned amount for Other Amounts Receivable under Reinsurance Contracts is \$7,355,774 less than the Company reported. This reclass was a result of the Company incorrectly including uncollected premiums in other amounts receivable under reinsurance contracts.

Liabilities

<u>Note 4 - Aggregate Reserve for Accident and Health Contracts:</u>	<u>\$(83,587)</u>
<u>Note 4 - Contract Claims: Accident and Health:</u>	<u>\$(14,263,780)</u>

The above captioned amounts for Aggregate Reserve for Accident and Health Contracts and Contract Claims: Accident and Health are the same as that reported by the Company. The Contract Examination Actuary reviewed these balance without exception.

<u>Note 5 - Surplus Notes:</u>	<u>\$10,000,000</u>
--------------------------------	---------------------

The Company issued a 6% per annum \$10,000,000 surplus note to Delta Dental of California on August 1, 2006. The note matures July 31, 2013 and was approved by the Delaware Department of Insurance.

COMPLIANCE WITH PRIOR EXAMINATION RECOMMENDATIONS

The prior examination report contained five recommendations as follows:

- 1) It was recommended that all officers and other key employees of the Company be included in the process of the conflict of interest disclosure procedure, and complete and sign such

disclosure statement annually. It was also further recommended that the Company maintain the records of the statement of policy on conflict of interest and the statement of declaration of conflict of interest for all the years under the examination period, and make it available for future examinations.

The Company has complied with this recommendation.

- 2) Concerning Accounts and Records it was recommended that the Company comply with ***Section 526 of the Delaware Insurance Code*** which provides, among others, the annual statement shall be prepared in accordance with the ***NAIC Annual Statement Instructions and the NAIC Accounting Practices and Procedures Manual***.

The Company has not complied with this recommendation.

- 3) Concerning the Company's properly filing the Insurance Holding Company Annual Registration Statement (Form B) to include all intercompany agreements in force as of the statement date.

The Company has complied with this recommendation.

- 4) Concerning Company's common stock it was recommended that the Company comply with ***Section 526 of the Delaware Insurance Code*** which provides, among others, the annual statement shall be prepared in accordance with the ***NAIC Annual Statement Instructions*** and the ***NAIC Accounting Practices and Procedures Manual***.

The Company has complied with this recommendation.

- 5) Concerning Company's cash equivalents and money market mutual funds it was recommended that the Company comply with ***Section 526 of the Delaware Insurance Code*** which provides, among others, the annual statement shall be prepared in accordance

with the *NAIC Annual Statement Instructions* and the *NAIC Accounting Practices and Procedures Manual*.

The Company has complied with this recommendation.

SUMMARY OF RECOMMENDATIONS

1. Bylaws and Certificate of Incorporation differ on number of Directors (Page 7)

The Company's amended bylaws stipulate the number of Directors will consist of four members; however, the Company's Certificate of Incorporation requires the number of Directors to be no less than five.

2. The Company did not comply with Section 4919 of Delaware Insurance Code (Page 8)

The Company did not always notify the Delaware Department of Insurance when a director or officer was changed.

3. Reinsurance agreements not submitted timely to Delaware Department of Insurance (Page 23)

The Company did not timely submit reinsurance agreements for approval to the Commissioner or notify the Commissioner as to the intent to enter into a reinsurance agreement as required by **18 Del. C. Section 5004 (a) and (b)(3)(f)**.

4. Delaware Department of Insurance was not notified as to its intent to enter into a reinsurance agreement. (Page 23)

The Company was in violation of **18 Del. C. Section 5005 (a)(2)(c)** as it did not notify the Commissioner in writing of its intention to enter into this reinsurance agreement and have it approved within such period.

5. It is recommended that the company complies with Section 526 of the Delaware Insurance Code which provides, among others, the Annual Statement shall be prepared in accordance

with the NAIC Annual Statement Instructions, and the NAIC Accounting Practices and Procedures Manuals. (Page 26)

6. Cash and Outstanding Drafts (*Footnotes to the Financial Statement Number 2*)

The Company did not comply with SSAP No. 2 as to the reporting of outstanding drafts. The outstanding drafts did not qualify to be reported as a liability and instead should have offset cash. (Page 31)

COMMENTS

The Company issued a 6% per annum \$10,000,000 surplus note to Delta Dental of California in August 1, 2006 with approval from the Delaware Department of Insurance.

CONCLUSION

As a result of this examination, the financial condition of Delta Dental Insurance Company, as of December 31, 2006 was determined to be as follows:

Admitted Assets	<u>\$ 94,095,432</u>
Liabilities	\$ 49,342,648
Common Capital Stock	\$ 1,646,579
Preferred Capital Stock	10,500,000
Surplus Notes	25,750,000
Gross Paid-In and Contributed Surplus	7,297,853
Unassigned Funds (Surplus)	<u>(441,648)</u>
Capital and Surplus and Surplus Notes	<u>\$ 44,752,784</u>
Total	<u>\$ 94,095,432</u>

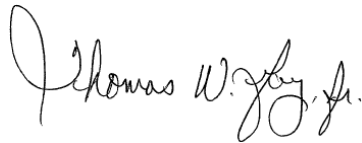
Since the last examination as of December 31, 2003, the Company's assets went from \$72,702,541 to \$94,095,432, an increase of \$21,692,891. Liabilities for the same period went

Delta Dental Insurance Co.

from \$37,581,549 to \$49,342,648, an increase of \$11,761,099. Capital and Surplus and Surplus Notes went from \$34,820,990 to \$44,752,784, an increase of \$9,931,794.

In addition to the undersigned, Larry Elson, CFE, and Larry Cross, CFE participated in the examination. Actuarial assistance was provided by INS Consultants, Inc.

Respectfully submitted,

A handwritten signature in cursive script, reading "Thomas W. Gay, Jr.".

Thomas W. Gay, CFE
Examiner-in-Charge
State of Delaware

SUBSEQUENT EVENTS

In January 2007, the Company's ultimate parent, Delta Dental of California (DDC), merged Private Medical-Care, Inc. (PMI) into its DHMO operations.

In July 2007, DDC purchased 48% of Delta Dental of Puerto Rico (DDPR). As of January 1, 1999, the Company had a 50% quota share reinsurance agreement in which the Company assumed the underwriting gain or loss of DDPR. See "Assumed REINSURANCE" above.

Effective September 2007, the Company amended its 95% quota share reinsurance agreement with Dental Reinsurance Company, LTD (Bahamas) (DRC LTD), which was originally dated December 1, 1995. The primary change was in Section 3 which now provided for a Trust Fund. A trust agreement shall be entered into between the Company, as beneficiary, DRC LTD, as grantor, and a trustee that is a qualified United States financial institution as defined in *18 Del. C. §913*.